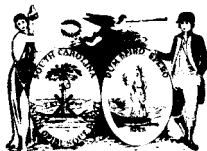


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

April 17, 2003

Ms. Carol Disbro, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

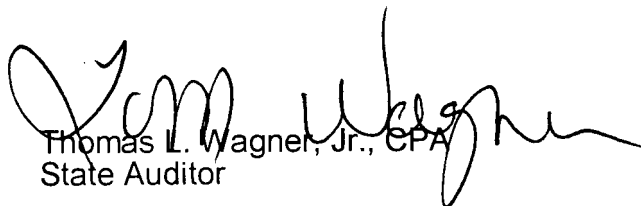
Re: AC# 3-MCL-J9 – Magnolia Manor - Columbia, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

MAGNOLIA MANOR - COLUMBIA, INC.

COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-MCL-J9**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

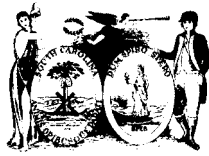
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 13, 2003

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor - Columbia, Inc., for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Magnolia Manor - Columbia, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

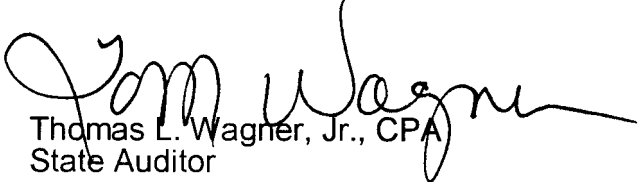
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor - Columbia, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor - Columbia, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 13, 2003

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - COLUMBIA, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-MCL-J9

	10/01/00- <u>09/30/01</u>
Interim Reimbursement Rate (1)	\$100.96
Adjusted Reimbursement Rate	<u>97.48</u>
Decrease in Reimbursement Rate	\$ <u><u>3.48</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MAGNOLIA MANOR - COLUMBIA, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-MCL-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.91	\$53.99	
Dietary		8.41	10.56	
Laundry/Housekeeping/Maintenance		<u>8.27</u>	<u>9.12</u>	
Subtotal	\$ <u>5.16</u>	64.59	73.67	\$64.59
Administration & Medical Records	\$ <u>-</u>	<u>17.64</u>	<u>11.20</u>	<u>11.20</u>
Subtotal		82.23	<u>\$84.87</u>	75.79
<u>Costs Not Subject to Standards:</u>				
Utilities		3.57		3.57
Special Services		.12		.12
Medical Supplies & Oxygen		3.22		3.22
Taxes and Insurance		1.67		1.67
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$90.81</u>		84.37
Inflation Factor (3.20%)				2.70
Cost of Capital				6.12
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.16
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.41)
Nurse Aide Staffing Add-On 10/01/2000				1.30
Nurse Aide Staffing Add-On 10/01/1999				<u>1.24</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$97.48</u>

MAGNOLIA MANOR - COLUMBIA, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-MCL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,479,871	\$ 22,392 (4) 1,744 (5)	\$ 17,991 (3) 7,843 (3) 975 (4)	\$1,477,198
Dietary	282,604	-	60 (4) 23,069 (6)	259,475
Laundry	70,197	-	-	70,197
Housekeeping	104,282	-	-	104,282
Maintenance	80,423	-	20 (4)	80,403
Administration & Medical Records	441,704	7,843 (3) 17,991 (3) 2,333 (4) 74,703 (5)	620 (4)	543,954
Utilities	109,947	-	-	109,947
Special Services	10,542	-	138 (4) 3,095 (5) 1,617 (7) 2,025 (8)	3,667
Medical Supplies & Oxygen	99,466	1,061 (7)	1,088 (9)	99,439
Taxes and Insurance	75,856	-	14,035 (1) 10,382 (2)	51,439
Legal Fees	-	-	-	-

MAGNOLIA MANOR - COLUMBIA, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-MCL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	236,922	-	40,815 (5)	188,711
			7,396 (8)	
Subtotal	2,991,814	128,067	131,169	2,988,712
Ancillary	170,968	-	-	170,968
Non-Allowable	337,881	14,035 (1)	22,912 (4)	340,983
		10,382 (2)	32,537 (5)	
		23,069 (6)		
		556 (7)		
		7,396 (8)		
		3,113 (9)		
Total Operating Expenses	<u>\$3,500,663</u>	<u>\$186,618</u>	<u>\$186,618</u>	<u>\$3,500,663</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

MAGNOLIA MANOR - COLUMBIA, INC.
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MCL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes, Insurance & Licenses	\$ 14,035	\$ 14,035
	To reverse provider cost report adjustment number two HIM-15-1, Section 2304		
2	Nonallowable Taxes, Insurance & Licenses	10,382	10,382
	To post provider liability insurance adjustment HIM-15-1, Section 2304		
3	Administration Medical Records Nursing Restorative	7,843 17,991	17,991 7,843
	To record salaries in the proper cost center DH&HS Expense Checklist		
4	Nursing Medical Records Restorative Dietary Maintenance Administration Special Services Nonallowable	22,392 2,333	975 60 20 620 138 22,912
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nursing Administration Special Services Cost of Capital Nonallowable	1,744 74,703	3,095 40,815 32,537
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR - COLUMBIA, INC.
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MCL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Dietary	23,069	23,069
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2328		
7	Nonallowable Medical Supplies & Oxygen Special Services	556 1,061	1,617
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable Cost of Capital	7,396	7,396
	To adjust capital return State Plan, Attachment 4.19D		
9	Nonallowable Medical Supplies & Oxygen Special Services	3,113	1,088 2,025
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$186,618</u>	<u>\$186,618</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MAGNOLIA MANOR - COLUMBIA, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-MCL-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	75,275
Accumulated Depreciation at 9/30/99	<u>(914,420)</u>
Deemed Depreciated Value	2,343,375
Market Rate of Return	<u>.060</u>
Total Annual Return	140,603
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	140,603
Depreciation Expense	49,331
Amortization Expense	-
Capital Related Income Offsets	(1,223)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	188,711
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>6.12</u></u>

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